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FAS Official Sees Bright Oilseed Export Outlook

This fiscal year has been a banner one for U.S. exports of oilseeds and products. Shipments in the year ending September 30 will hit a new high, and the near-term prospects look good also, provided demand holds up in major markets, including Western and Eastern Europe, Japan, and the USSR. Another key factor will be outcome of the 1979 soybean crop in Brazil following a nearly 25 percent decline in its 1978 output.

Exports of U.S. oilseeds and products are heading toward a record \$7.3 billion this fiscal year in response to strong foreign demand and a reduced soybean crop in the leading export competitor, Brazil.

Whether this export momentum carries into fiscal 1979 hinges on 1979 crop results in Brazil, as well as on demand in the major markets—Western and Eastern Europe, the USSR, and Japan. So far, sales prospects seem bright, according to Thomas R. Saylor, Associate Administrator, Foreign Agricultural Service, in an August 12 speech at the American Soybean Association (ASA) National Convention in Chicago.

Saylor said that U.S. oilseed and product exports in fiscal 1978 (October-September)—expected to be up some 14 percent from last year's \$6.4 billion—will contribute substantially to the \$26-billion record seen for total agricultural exports this year. As always, soybeans and products are accounting for the bulk of the oilseed exports and are seen hitting a new high of \$6.2 billion in fiscal 1978, compared with \$5.7 billion in fiscal 1977.

Soybean and product sales have been particularly strong this year in Western Europe, Eastern Europe, and Japan, and signs point to further gains in these markets in the near future.

In Western Europe, said Saylor, "a more favorable grain-oilseed price ratio and some growth in livestock and poultry numbers are factors in increased demand for high-protein feeds." He sees volume of soybean imports by the European Community, which accounts for the bulk of the region's purchases, rising by about a fourth in fiscal

1978 over the fiscal 1977 level and imports of products gaining by about a third.

Moreover, fiscal 1979 could bring further gains if the value of the U.S. dollar continues to decline since "protein source prices should remain relatively inexpensive compared with domestically produced grain."

In Japan, "the livestock industry is expanding, formula feed prices are falling, and production is rising," he continued. As a result, U.S. exports of soybeans to Japan may rise by 11 percent in fiscal 1978 to \$925 million and by another 6 percent in fiscal 1979.

The United States also has exported more to Eastern Europe and the USSR recently—although sales to the USSR may drop slightly in fiscal 1978—as a result of increased demand for protein feeds needed to fuel livestock industry expansion. Moreover, strong domestic demand has forced the USSR to relinquish its onetime role of major oilseed supplier to Eastern Europe and become a large soybean importer in its own right.

Current forecasts place U.S. soybean and product exports to Eastern Europe during fiscal 1978 at \$340 million, including transshipments (compared with about \$300 million in fiscal 1977), and those to the USSR, at \$200 million (against \$219 million). A further strong showing is likely in fiscal 1979, according to Saylor.

Saylor cautioned, however, that there still are several areas of uncertainty, including the People's Republic of China (PRC).

"While U.S. exports of soybeans and oil to the PRC are up this year, the overall oilseed export picture remains cloudy. The Chinese

have resorted to oilseed imports only when there has been a shortfall in domestic production, as in 1974 and 1977," he said.

Conditions to be weighed in that market include:

- Government desire to boost food rations but corresponding emphasis on achieving these gains by increasing domestic output.

- Static production of oilseeds during the past few years alongside continued population growth, which—although only about 1.7 percent a year—has a big impact in this country of over 900 million people.

Saylor went on to cite factors in the trade-restriction area that have a bearing on U.S. oilseed and product exports:

- Rising imports of manioc and other low-protein carbohydrate sources into the European Community, which have been large enough recently "to threat-

en use of domestic grain in animal feeds." When used in livestock feeds, these low-protein products must be supplemented by large quantities of protein feed, mainly soybean meal. To counter the trend, the EC had "considered imposing import levies for both the feeds and the protein supplements, but decided against this action after U.S. protests and a finding by the EC courts that such action should be contrary to EC law," said Saylor. "Instead, the EC negotiated an informal voluntary export restraints agreement with Thailand, the main supplier of manioc."

- EC use of nonfat dry milk (NFDM) in feed. U.S. complaints under the General Agreement on Tariffs and Trade (GATT) have resulted in the EC's lifting its requirements that certain percentages of NFDM be used in compound feeds.

However, much the same results are being accomplished as a result of EC subsidies that reduce costs of NFDM to the point where it is an economic substitute for soybean meal in feed.

- Multilateral trade negotiation (MTN) requests. Canada has requested that the U.S. Food and Drug Administration put rapeseed on the list of products considered safe for food use. "We have informed the Canadians that health and safety regulations such as FDA's are not negotiable trade issues," said Saylor.

Saylor emphasized that there is no room for complacency if growth in U.S. oilseed and product exports is to be maintained. He said that a big factor here will be continued cooperation with ASA and other industry groups in foreign market development.

New actions to improve such efforts include plans for opening of more trade offices overseas—the first such trade office was opened in London on May 26—and establishment of a strategic planning unit in FAS to research market opportunities abroad.

Attaché placement also is being reviewed so as to obtain the best results with available personnel. The agricultural attaché post in Trinidad, for instance, is being closed and a new one opened in Romania—one of the growing East European soybean markets.

"By helping each other in these and other ways, we can achieve our mutual goal of expanding export markets for soybeans and products," said Saylor. "We can work together to overcome potential trouble spots and work out problems in the best interest of our common mission. We can assure that this year's bright export picture will carry into the future." □

"Soybeans and products are accounting for the bulk of the oilseed exports and are seen hitting a new high of \$6.2 billion in fiscal 1978..."

U.S. Exports of Soybeans, Oil, and Meal to Major Markets, Fiscal Years 1976, 1977, and 1978 Forecast

[In thousands of metric tons]

Item	1976	1977	1978
Soybeans:			
European Community	7,446	7,326	8,920
Spain	1,247	1,030	1,635
Norway	209	201	220
Soviet Union	310	825	805
Japan	3,248	3,070	3,850
Republic of China	789	731	1,025
Israel	377	392	415
Mexico	13	399	565
Canada	388	446	350
Other	1,023	736	1,495
Total	15,050	15,156	19,280
Soybean oil:			
India	16	252	250
People's Republic of China	0	0	100
Pakistan	151	119	130
Peru	15	57	75
Other	261	274	395
Total	443	702	950
Soybean meal:			
European Community	2,671	2,282	2,860
Spain	347	143	220
Poland	361	257	425
Japan	120	217	305
Canada	278	329	310
Other	890	962	1,415
Total	4,667	4,190	5,535

Output Gains Seen for Fats, Oils, and Meal

Based on August 16 conditions for Northern Hemisphere crops and tentative projections for Southern Hemisphere crops, world production of protein meals in 1978/79 is expected to be around 7 percent (soybean-meal-equivalent basis) above that of 1977/78, with chances about two out of three that output will range between 79 million and 85 million tons. World production of fats and oils is expected to be up approximately 4 percent, with a probable range of 53-55.5 million tons.

Prospective increases in foreign output will account for nearly all of the increase in oil production for possibly 80 percent of the expansion in meal production. This is in sharp contrast to 1977/78, when the lion's share of growth occurred in the United States.

Anticipated expansion in 1979 soybean output in the Southern Hemisphere—Brazil and Argentina—accounts for 75 percent of the projected gain in foreign meal production and 35 percent of the increase in foreign oil production. Since expansion will come largely from crops not yet planted and not to be available before April 1979, this early season appraisal is very tentative.

Moreover, soybean yields in Brazil and Argentina are subject to much wider annual variations than yields in the United States. In the United States, soybean yields since 1965 have varied from the long-term trend by only ± 5.5 percent

in 2 years out of 3, compared with ± 10 percent in Brazil and ± 15 percent in Argentina.

The 1977/78 production estimate for oil is reduced slightly from the previous estimate of 52.1 million tons in late June, reflecting a downward revision for palm and coconut oils. However, meal production is up slightly, reflecting minor changes in a number of countries.

The 1978/79 meal and oil production estimates¹ include the following changes from those of the current season:

- The August 1 estimate of the 1978 U.S. soybean crop was 48.0 million tons, up 2.8 percent from the 1977 crop, with chances about two out of three that the crop would range about 45-51 million tons.

- It now appears that U.S. cottonseed production in 1978 could range from around 15 to perhaps 25 percent below the 5.0-million-ton crop in 1977.

- The 1978 U.S. sunflowerseed crop is estimated at more than a fourth above the 1977 output of 1.3 million tons.

¹Based on assumed extraction rates applied to potential availability of each crop for crushing and/or export, not on estimates of actual crushings. Northern Hemisphere crops to be harvested in the second half of 1978 are combined with tentative projections for Southern Hemisphere crops to be harvested in the first half of 1979. Animal, marine, and palm products included in the table are based on projected output for calendar 1979.

- The 1979 Brazilian soybean crop, to be planted later this year, is projected at 13-14 million tons—up about 35 percent from this year's reduced volume.

- The 1979 Argentine soybean crop, to be planted later this year, is projected at 3 million tons—about one-fourth above the 1978 volume.

- The 1978 Indian peanut crop is forecast at about 6 million tons—up 9 percent from the 1977 volume.

- The 1978 Senegalese peanut harvest is expected to be about double last year's reduced volume of 600,000 tons.

- The 1978 Canadian rapeseed crop is expected to run about 50 percent above the 1.8-million-ton 1977 crop.

- The 1978 Soviet sunflowerseed crop, tentatively indicated at about 5.5 million tons, is down 7 percent from the 1977 volume.

- The 1979 Malaysian

palm oil production is projected at about a fourth above this year's below-trend 1.5 million tons.

- The 1979 Philippine copra production is forecast at roughly 2 million tons—down 15 percent from the 1978 estimate, reflecting less favorable rainfall.

Annual variations in world production of high protein meals have been within 2.85 million tons of the projected trend in 2 years out of 3 during the 1965-78 period. The 1978/79 forecast, at 81.9 million tons, is 5.26 million tons above trend, reflecting indications of significant increases in oilseed plantings and near-normal yields.

Comparably, on the oil side, annual variations in world production have been within 1.18 million tons of the projected trend in 2 years out of 3. The 1979 forecast, at 54.2 million tons, is 2.10 million tons above trend. □

World Potential Production for Protein Meals and Fats and Oils, 1975/76-1978/79¹

Item	1975/76	1976/77	1977/78	1978/79 (Forecast)
Meal (soymeal equivalent):				
Soybean	45.7	41.0	49.3	53.7
Fish	6.5	5.8	5.1	5.1
Peanut	4.9	4.3	4.0	4.7
Sunflower	3.4	3.4	4.3	4.6
Cottonseed	6.4	6.9	7.8	7.4
Linseed	1.1	1.0	1.3	1.2
Rapeseed	3.1	2.5	3.3	3.7
Other	1.7	1.5	1.6	1.5
Total	72.8	66.4	76.7	81.9
U.S. portion	33.6	28.5	38.0	38.8
Fats and oils:				
Cottonseed	2.8	2.9	3.3	3.2
Peanut	3.6	3.2	3.0	3.5
Soybean	10.2	9.1	11.0	11.9
Sunflower	3.6	3.7	4.6	4.8
Rapeseed	2.9	2.3	3.0	3.4
Olive	1.8	1.3	1.4	1.4
Coconut	3.3	3.1	3.1	2.8
Palm	3.1	3.3	3.4	3.9
Other edible vegetable	2.0	2.0	1.9	2.2
Industrial oils	1.4	1.3	1.6	1.5
Animal fats	14.0	14.5	14.7	14.6
Marine oils	1.1	1.0	1.0	1.0
Total	49.8	47.6	52.0	54.2
U.S. portion	12.1	11.1	13.5	13.6

¹Estimated as of August 16, 1978.

Costa Rican Farm Production Gains By One-Third

The value of Costa Rica's production of its key agricultural commodities in 1977 was a third greater than that of 1976, according to the Central Bank of Costa Rica, largely because of sharply higher export prices for coffee and cocoa, and higher domestic prices for sugar.

Volume of farm production in 1977 was mixed: Output was up for coffee, sugar, cotton, beef, cocoa, and milk, and production decreased in the basic grains group and bananas.

Given continued good weather and barring any major disease/insect problems, the outlook for 1978 is for higher production in all agricultural commodities. An increase in overall value is not predicted, however, owing to the expected decline in international coffee prices.

The value of coffee production was 115 percent higher in 1977 than in 1976, and volume rose 8.5 per-

cent, according to the Central Bank of Costa Rica. The increased harvest was due to good weather conditions, greater use of disease-control measures, and ample application of fertilizers.

No official forecast of the 1978 coffee crop has yet been made; however, some producers are forecasting a crop larger than the one last year. Rains began early this year in the important Central Valley area and have continued on a regular basis. As a consequence, coffee trees have already flowered several times. Barring drought or disease problems, a record production is forecast for 1978.

Banana export prices during 1977 did not increase enough to offset a 6.4 percent decline in banana output, and, therefore, the value of production dropped by 5.4 percent. A general decrease in the usage of fertilizers is reported to have contributed to the decline in production, but producers expect that greater application of fertilizer this year will improve yields.

Sugarcane production in 1977 was at a record level. Greater area harvested ac-



Harvesting corn (top) in Costa Rica. Because of drought, the country's corn—and total grain—output was below expectations, but with about the same planted area this year, production could be up. In bottom photo, cattle on the Costa Rican range. Beef and veal production rose last year, and higher world prices boosted value of beef exports even further.

counted for a 10 percent increase over the previous year's tonnage. A higher price for sugar in the domestic market helped to offset the effect of depressed export prices, with the result that the 1977 value of production increased by 26.8 percent.

The 1978 sugarcane crush got off to a slow start because of a shortage of cane cutters. The cane harvesting season coincides with the coffee picking pe-

riod, and more attractive coffee picking wages (more than double) lured workers away from sugar plantations. However, as the coffee harvest ended, more workers returned to cane cutting, and crushing operations normalized. With new production from the CODESA Tempisque mill, the 1978 output should be above that of 1977.

Last year's grain production, at 233,000 tons, was 7 percent above 1976's.

Based on report from Edwin I. Cissel, U.S. Agricultural Attaché, San Jose.

Rice production in 1977 was approximately the same as in 1976, while corn production rose almost 6 percent. Sorghum showed the most substantial increase, with output up 50 percent.

Planting of the 1978 grain crop has begun, and indications are that the area planted this year will be slightly above that of 1977. Total grain production is forecast at 254,000 tons.

Costa Rica's beef production rose about 4 percent from 1976 to 66,000 tons in 1977, according to USDA's Foreign Agricultural Service. However, value of production jumped 16 percent to almost \$77 million, according to Costa Rica's Central Bank. Poor pasture conditions during the better part of the year resulted in only minimum weight gains by many cattle.

Responsible for the value gain were not only higher world beef prices, but attractive prices received from exports to Venezuela—a new market that absorbed about one-third of Costa Rica's exports in 1977.

In the major cattle grazing province of Guanacaste, rains began to fall 6 weeks earlier than usual this year. Timely rains have continued and pastures are in

excellent condition, so that an increase in beef production is expected this year.

Cotton production in 1977 rocketed by more than 400 percent in volume from that of 1976 as a result of increased plantings. Owing to special financial encouragement by the Government to expand production, cotton plantings went from 2,900 hectares in 1976, to 13,500 hectares in 1977. Production value increased by almost 300 percent.

Planting of the 1978 cotton crop has begun, and producers indicate that plantings will increase by some 50 percent over 1977's. Most of the 1978 crop will be exported.

During 1977, the value of cocoa production escalated by 142 percent from the value reported in 1976. Sharply higher export prices were responsible for much of the value increase. Good weather conditions and greater fertilizer applications pushed output up by 28.8 percent. Higher cocoa prices have reversed the previous decline in production, as producers are now encouraged to bring back into production non-productive plantings, as well as to use more fertilizer. Cocoa production should continue upward in 1978. □

U.S. Ginseng Exports Hit Record in 1977

Exports of U.S. ginseng climbed to a record \$26.5 million in 1977, 48 percent above the year-earlier level. The quantity of ginseng exported in 1977 was up 15 percent from the 1976 level, while the unit value (average price) of all types of ginseng exports increased by 28 percent during the same period. However, the average price of U.S. ginseng exports in constant prices rose by only 21 percent from 1976 to 1977.

The value of U.S. ginseng exports has risen in all years but one since 1970. This increase was particularly rapid during the last 2 years. Despite temporary restrictions on wild ginseng exports, the overall uptrend is expected to continue in the foreseeable future.

Ginseng is an herb prized in the Orient for its supposed properties as a stimulant, tonic, and aphrodisiac among others. The

American variety is native to eastern hardwood forests from the Ozark Mountains to the Atlantic Ocean wherever soils are well drained. An Asian variety is native to Manchuria and Korea. American ginseng was exported to the Far East even before the American Revolution. Daniel Boone was reported to have shipped— for eventual export—several tons of ginseng root that he had gathered in Kentucky. Because the great virgin forests were diminishing, commercial cultivation of ginseng was initiated, just before the turn of the century.

At the present time, almost all of the U.S. ginseng gathered or cultivated is exported. Most of this is cultivated ginseng, but since ginseng from the woods commands a higher price, wild ginseng accounts for nearly one-half of the value of U.S. ginseng exports.

Usually exported in the dried root form, only small amounts of ginseng until recently have been processed in this country since the patent-medicine days of the early 1900's.

Increasing quantities of

Costa Rica: Production of Major Products, 1976-77

Item	1976		1977 ¹	
	Value Mil dol.	Volume Metric tons	Value Mil dol.	Volume Metric tons
Coffee	136.9	81,758	294.1	88,772
Bananas	151.9	1,187,147	147.9	1,112,164
Sugarcane	29.5	2,291,585	37.4	2,519,421
Grains:				
Rice	27.4	93,900	25.3	93,200
Corn	17.9	89,000	13.8	94,000
Beans	8.6	16,212	7.5	14,059
Sorghum	3.9	30,855	5.8	46,435
Cotton	2.4	1,610	9.6	8,853
Cocoa	9.6	5,855	23.3	7,541

¹ Preliminary.

Source: Banco Central de Costa Rica.

By Gordon E. Patty, agricultural economist, Horticultural and Tropical Products Division, FAS.



A group of farmers (left) picks up ginseng roots in Marathon County, Wis. An exporter (above) examines the crop in the same county. U.S. ginseng exports set a record last year.

processed ginseng are being imported into the United States from Korea and other countries. In 1977, Korea exported to the United States 124,336 kilograms of instant ginseng tea worth \$2.6 million. Numerous other ginseng products are imported into the United States, including capsules, extract, and drinks, most of which end up in health food stores.

However, more American ginseng is now being processed in this country. In the first 4 months of 1978, the United States exported ginseng valued at a total of \$2.7 million. Of this, 15 percent was advanced (processed) ginseng.

The United States exports most of its ginseng to Hong Kong. During 1977, \$23.9 million worth of U.S. ginseng went to that destination. Another \$2.1 million worth went to Singapore, and \$337,000 worth was shipped to Canada. Minor destinations were West Germany, the Republic of China, Malaysia, Japan, Thailand, and the United Kingdom.

The United States was the primary source of ginseng in the Hong Kong market in 1976. Other sources in order of importance included Japan, the Republic of Korea, Singapore, the People's Republic of China, and Canada.

A new factor has arisen on the American ginseng horizon, however, that may have a significant effect on U.S. ginseng exports. Since May 1977, an export permit has been required for wild ginseng under the Convention on International Trade in Endangered Species of Wild Fauna and Flora, of which the United States is a signatory member.

Under the Convention, wild ginseng gathered during 1978 and thereafter cannot be exported except from States that have adequate regulations to safeguard against indiscriminate harvesting of wild ginseng. It has been proposed that Kentucky, Michigan, Missouri, North Carolina, and West Virginia be certified as having adequate regulations, and other States are working on regulations to acquire the certification that will permit them to continue wild ginseng exports.

Export permits on wild ginseng are issued by the Federal Wildlife Permit Office, U.S. Fish and Wildlife Service, Department of the Interior. Cultivated ginseng does not require an export permit and can continue to be exported freely. □

PRC Purchases U.S. Ginseng Seed

Although three species of native ginseng are reportedly grown in the People's Republic of China, the PRC has purchased about 225 kilograms of American ginseng seed from the United States in the hope it will be more resistant to the blight that can reduce the Chinese crop.

In addition to seed, U.S. ginseng is imported by the PRC via Hong Kong—the world's largest ginseng market. The price for American ginseng is \$231-\$235 per kilogram, similar to prices received for top-quality Chinese cultivated ginseng.

A forest plant requiring heavy shade for best growth, most Chinese ginseng—both wild and cultivated—is grown in Heilung-kiang, Kirin, and Liaoning Provinces, but some ginseng is also found in the mountains of Hopei Province.

Annually, the PRC produces about 600 tons of ginseng, with about 40 tons entering export channels. □

U.S. Exports of Ginseng, Average 1967-69, Annual 1970-77

Year	Quantity	Value	Unit Value
			Kilograms Dollars per kg.
1967-69 average	64,282	4,800,027	74.67
1970	73,782	5,016,951	68.00
1971	76,569	5,827,289	76.11
1972	103,197	8,922,426	86.54
1973	83,055	8,846,112	106.51
1974	98,337	11,116,787	113.05
1975	112,859	12,595,082	111.60
1976	149,545	17,856,435	119.41
1977	172,529	26,459,148	153.36

Green Rates and MCA's: Workings of the EC Agrimonetary System

By Dan Conable

In conjunction with its 1978/79 price package (*Foreign Agriculture*, Sept. 4, 1978), the European Community's Council of Agricultural Ministers has announced adjustments in the representative (green) rates of exchange for agriculture. Taken together, these adjustments represent a small step in reducing price imbalances among Member States, but they fall short of the firm commitment to abolish by stages green rates and Monetary Compensatory Amounts (MCA's), as requested earlier by the EC Commission.

Green rates are special rates of currency exchange used in the EC for agricultural transactions. MCA's are border subsidies and taxes used to achieve Community policy objectives in intra-EC and third-country trade.

The author is an agricultural economist, Developed Market Economies Division, Foreign Agricultural Service.

Under the EC's Common Agricultural Policy (CAP), support prices, import levies, and subsidies applying to agricultural commodities are denominated in units of account (u.a.). The u.a. functions as a standard of value, not as a currency in its own right with its own notes and bills. In the actual workings of the CAP, u.a. amounts are translated into Member State currencies before any agricultural transactions take place.

Prior to the current period of monetary instability, the exchange rate between national currencies and between national currencies and the u.a. was determined by the par value of each currency and the par value of the u.a.—at that time equal to the par value of US\$1. No rate of exchange was allowed to fluctuate by more than 1 percent. When it did, central banks entered the market to restore the balance.

As long as exchange rates remained stable, translation of u.a. values into that of Member State

currencies presented no difficulties. In 1969, however, France devalued its franc by 11 percent. To avoid an equivalent hike in domestic food prices and import levies the French requested—and were granted—temporary permission not to devalue the franc in agricultural transactions. France was allowed to continue to convert agricultural prices from units of account to French francs at the pre-devaluation exchange rate.

Later in the same year, Germany revalued the Deutsche mark by about 9 percent, and once again special price arrangements for agriculture were granted. To prevent a sudden drop in German farm incomes, Germany was permitted to maintain the old u.a./DM exchange rate for agriculture, thereby holding agricultural prices at previous levels. These separate rates of exchange for CAP matters were officially named "representative rates," but the nickname "green rates" soon came into general use.

French and German departures from the policy of common pricing created an immediate threat to the stability of intra-EC trade. A 20-percent price differential had emerged between French and German support prices, threatening the German market with a flood of cheap products from France. To forestall this, MCA's were authorized to equalize prices at the border.

French MCA's raised the prices of French farm exports 11 percent, and the German MCA's raised them another 9 percent. German exports to France received a 9 percent subsidy in Germany and an 11 percent subsidy in France.

To avoid distortion of trade with third countries,

MCA's were put into effect on agricultural transactions between Germany and France and non-EC countries, raising prices of imports into Germany by 9 percent and lowering them on imports into France by 11 percent.

These arrangements were not intended as a permanent part of the CAP pricing system, but as time passed it became increasingly difficult for the CAP to do without them. By 1973, the par value system for national currencies had been discarded by the two countries, and the relative values of Member State national currencies were determined by market forces through the daily float, with currency of some countries floating jointly with that of another (the so-called snake) and others floating independently.

Because of the Community's common pricing policy, each change in the value of the floating currency of a Member State, relative to the u.a., implied a corresponding change in domestic farm prices—a rise in the event of currency devaluation and a lowering in the case of currency appreciation. Countries with weak currencies—such as France and Italy—feared a rise in agricultural prices by the full amount required by devaluation would create unacceptable inflationary pressures on their economies. Countries with strong currencies—Germany and the Netherlands, for example—thought it politically inexpedient to let farm prices drop to the level required by revaluation.

Against this background of unwillingness to allow exchange rate adjustments to affect food and farm economies, green rates of exchange were established by every EC country except

Denmark. Then, with green rates a fixture on the agricultural scene, it was necessary to institutionalize MCA's within the CAP. The unit of account used for agricultural purposes became known as the agricultural unit of account (a.u.a.) to distinguish it from other units of account used in other sectors of the economy. Together the green rates, MCA's, and a.u.a.'s became known as the EC's agrimonetary system.

The agrimonetary system controls both relative and absolute costs of agricultural commodities within EC national markets. Agrimonetary measures have not been permitted to undermine preference for Community production over imports, which is a basic precept of the CAP. However, the calculation of import prices in terms of national currencies has become a complex task, requiring a thorough understanding of green rates and MCA's.

The effects of the agrimonetary system are particularly pronounced in the EC's livestock feed sector, where MCA's are believed by some EC farmers to favor the use of imported corn and nongrain feeds over domestically produced grains, and to have seriously damaged the U.K. and French pork industries.

In all EC countries except Denmark, green rates raise or lower farm price levels applicable if a.u.a.'s were converted to national currencies at central bank rates. Denmark fixes its a.u.a./krone exchange rate at the market rate for krone in effect when the Council's annual price decisions are adopted.

Taken by themselves, price disparities resulting from use of green rates have the potential for destabilizing competition

among the farm sectors of the several EC Member States. To maintain a balance, MCA's have been imposed on trade in most commodities covered by the CAP, including cereals, pork, beef and veal, eggs and poultry, milk and milk products, certain wines, sugar and isoglucose, confectionery and other food preparations.

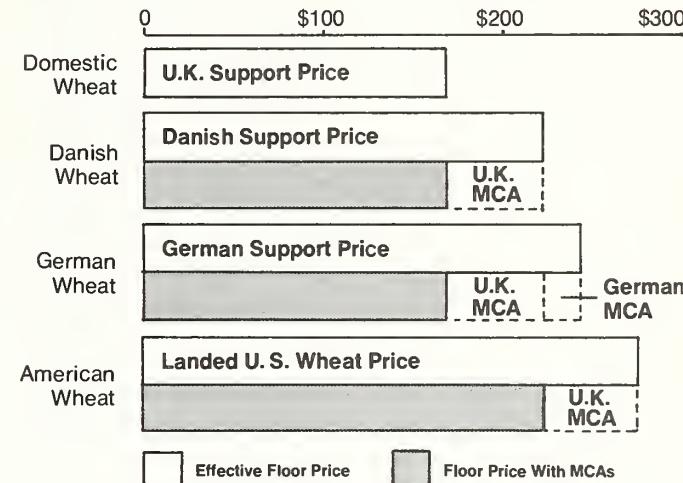
They are not applied to trade in tobacco, fresh and processed fruits and vegetables, oils and oilseeds, or other products such as potatoes, mutton and lamb, and alcohol—all not presently regulated by the CAP.

MCA percentages are applied to commodity support prices and are set once a year for countries (other than Denmark) whose currencies are in the "snake"—that is Germany and the Benelux countries (the Netherlands, Belgium, Luxembourg). MCA percentages must be adjusted often—sometimes weekly—for countries whose currencies are allowed to float independently—such as those of France, Italy, Ireland, and the United Kingdom.

Within the EC, MCA's operate as a tax on exports and a subsidy on imports for countries with devalued currencies, and as a subsidy on exports and a tax on imports for countries with revalued currencies. In trade with non-EC countries, MCA's are added to import levies and export subsidies by West Germany, Belgium, the Netherlands, and Luxembourg, while they are subtracted from the import levies and export subsidies by the United Kingdom, France, Italy, and Ireland.

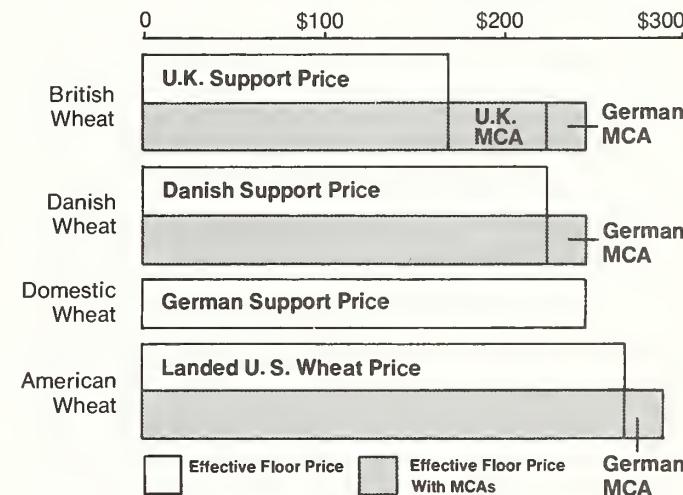
MCA's are usually collected from, and paid to, importers and exporters in the EC countries in which the traders are located. In

Effects of MCA's On The U.K. Wheat Market



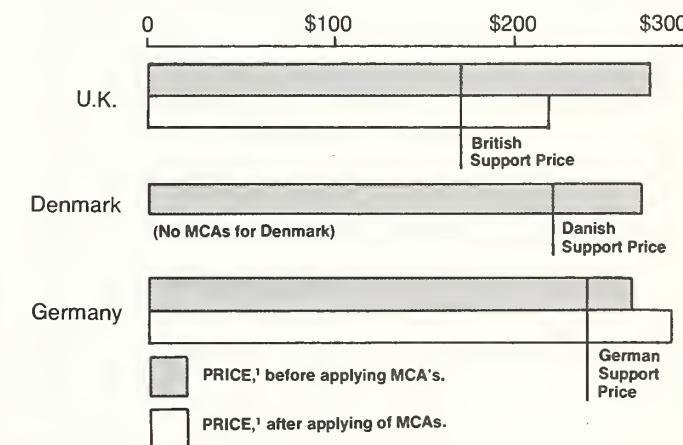
Note: U.S. price is c.i.f. Rotterdam plus variable levy, as of the first week in April, 1978

Effects of MCAs On The German Wheat Market



Note: U.S. price is c.i.f. Rotterdam plus variable levy as of the first week in April, 1978

Effects of MCAs in Equalizing the Import Price—Support Price Margin in EC Markets



¹c.i.f. Rotterdam, plus variable levy, converted at applicable green rate and adjusted by monetary coefficient. No allowance for intra-EC shipping costs.

Prices in first week of April, 1978

"... MCA's also lower the price of imports from the United States, but not enough that the U.S. product undercuts either domestic production or imports from other EC countries."

the case of British trade with strong-currency countries, the British MCA—as well as the other country's MCA—have been collected outside the United Kingdom for budgetary reasons.

Partly as a convenience to traders, the prefixing of EC variable levies has been allowed for some time. Since April 1978, it has been possible to fix MCA's along with levies as much as 6 months in advance. This arrangement primarily affects trade with France, Italy, Ireland, and the United Kingdom, whose floating currencies have mandated frequent—often weekly—agrimonetary adjustments.

In recent weeks, the green and central bank rates for the Irish pound have come so close to each other that no MCA's were in effect for Ireland in the first part of August. Currency appreciation also has been reducing the MCA's for Britain and France.

Disregarding transhipment costs, and assuming that bread-quality wheat is being traded at the floor prices maintained by the CAP intervention system, the accompanying graphs illustrate the effects of MCA's on intra-EC trade.

Within the British market, the U.K. MCA is applied as a subsidy on imports from Denmark to make them competitive with British production, as shown at top.

Because there are no Danish green rates, no Danish MCA is applied. In the case of imports from Germany, both the U.K. MCA and the German MCA must be applied to negate the German price disadvantage. Note that MCA's also lower the price of imports from the United States, but not enough that the U.S. product undercuts either domestic production or imports from other EC coun-

tries.

In the German market, the situation is reversed. Now an MCA must be added to Danish wheat so that it does not undersell the German product, as shown in the center diagram.

Both the German and the U.K. MCA's apply on imports from Britain. The German MCA is also added to the levy-paid price of German imports from the United States, broadening the margin of preference enjoyed by German and other EC producers.

The need for the application of MCA's to imports is apparent when prices for wheat in the United Kingdom, Denmark, and Germany are juxtaposed, as shown at bottom.

If MCA's were not employed on third-country imports, the price spread between imports and support prices would be four times greater in the United Kingdom than in Germany. MCA's bring the margin of preference for EC production more or less in line. Similarly, the application of MCA's on exports from the EC tends to maintain price competition between the products of different Member States in third-country markets.

MCA's do not precisely offset green-rate-induced price disparities for all commodities. In the beef sector, they are calculated on 90 percent of the intervention price, and special MCA percentages apply to certain commodity sectors in the United Kingdom and Italy.

In its 1978/79 price package, the Council agreed to changes in agrimonetary measures in the pigmeat sector for the relief of producers in France (and, to a lesser extent, Italy and the United Kingdom) who have been unable to compete with MCA-subsidized imports from the Benelux

countries, Germany, and Denmark. A lowering of the minimum purchase price for hog carcasses will have the effect of lowering MCA's in the pigmeat sector, since MCA's are calculated on the basis of that price.

In addition, the French green rate has been preset for 1979/80 3.2 percent lower than the rate for 1978/79. This projected reduction went into effect in the pigmeat sector on May 17, 1978, further reducing MCA's for pork traded with France.

In the context of its 1978/79 price proposals, the EC Commission strongly suggested a phased elimination of all MCA's over a period of no more than 7 years. The Commission has consistently opposed extensions of temporary agrimonetary measures, arguing that they distort the allocation of resources within the EC, create great administrative difficulties and the potential for fraud, and represent an unnecessary burden on Community finances. A Commission report on "The Economic Effects of the Agrimonetary System" released earlier this year attempted to document some of these concerns.

In the May price-setting negotiations, the Council refused to commit itself to automatic elimination of the agrimonetary system, contenting itself with a declaration that it would "progress regularly along the path leading to the elimination of existing MCA's." Although willing to reduce price disparities to some degree, the Council has not been willing to absorb the shortrun political costs of rapid price harmonization for the sake of the long-term economic benefits of reestablishing common pricing. □

Big U.K. Cereal Harvest Will Create Surplus

Responding to higher European Community (EC) support prices, cereal producers in the United Kingdom planted more wheat and barley this year than at any time in the past 10 years. Harvest conditions are currently ideal, and prospects are excellent for a near-record production in 1978, thus reducing the country's requirements for imported wheat and feedgrains.

As a result, feedgrain supplies will be in excess of domestic needs for the second year in a row. To avoid a buildup in stocks, the United Kingdom will have to further curtail corn imports and rely on costly EC export subsidies to move surplus wheat and barley into non-EC markets.

U.K. net grain imports during the just-ended 1977/78 season (August-July) dropped 3.5 million metric tons from the previous season's to about 5 million tons. Historical trade flows, available back to 1950, show this import level as

by far the lowest during the 28-year period. In fact, net imports of 6.3 million tons in 1950/51 were the second lowest. This year's large harvest signals a continuation of the same trade patterns with net imports projected at approximately 5.5 million tons.

Following a recent survey conducted by the Office of U.S. Agricultural Attaché (London) of eight major grain-producing counties, it now appears that this year's U.K. cereal harvest—despite a cold, wet summer—will likely be at least 16.5 million tons, just shy of last year's record 16.7 million tons. The counties visited account for 45 percent of the country's wheat and 25 percent of its barley. Quality prospects of the crop are generally favorable with relatively low levels of disease and insect damage.

Spring barley, accounting for about 70 percent of total barley sown area, has been slow to ripen and will likely be harvested 2 to 4 weeks late. This crop has been severely damaged by heavy rainfall, and lodging is extensive. Yields for the U.K. barley crop overall will be

down from last year's record level. Combined with a 2 percent reduction in barley area, U.K. total barley output for 1978 is estimated at 9.4 million tons, a drop of 10 percent from 1977's record 10.5 million tons.

On the other hand, wheat production is forecast at a record 6.2 million tons, largely because of a 17 percent increase in sown area and continued expansion in planting of higher yielding feed varieties.

These varieties, such as Maris Huntsman and Hobbit, were planted this year on about 60 percent of the area sown to wheat. In 1976, these two varieties accounted for 40 percent of total seed sales and only 25 percent in 1974.

Although the premium for milling quality wheat over feed wheat peaked at nearly £20 a ton last fall (due to effects of sprouting on milling quality wheat), the normal spread is £1 to £4 per ton. Producers maintain they need a premium of about £15 per ton as adequate incentives to opt for lower yielding varieties for bread baking. Lacking this monetary incentive, production of feed-quality wheats will continue to expand, creating a risk of consistently "depressed" feedgrain prices supported solely by the costly EC intervention system and export subsidization.

As with last year's record

grain crop, the expected large harvest this year will mean surplus supplies for the domestic animal-feed market. Nevertheless, corn will continue to be imported—but in reduced quantities—to satisfy necessary pigmentation, energy, and other requirements. In the drought years of 1975 and 1976, U.K. self-sufficiency in feedgrains, including wheat for feed, was approximately 70 and 65 percent, respectively. However, last year's record harvest resulted in a dramatic jump to an 80 percent self-sufficiency level.

Correspondingly, corn imports for feeding purposes dropped more than 700,000 tons, and imports of other feedgrains—wheat, barley, oats, and sorghum—declined about 1.4 million tons. To further ease the oversupply situation, the United Kingdom exported more than 2 million tons of barley, most of which eventually reached non-EC destinations with the benefit of export subsidies to the shipper. The country's feedgrain self-sufficiency could improve this year.

With the full integration of the United Kingdom into the EC this year, accession compensatory amounts were phased out. These were, in effect, shock absorbers that allowed the U.K. market to adjust gradually as U.K. importers shifted from low world grain prices

Based on report from James V. Parker, Assistant U.S. Agricultural Attaché, London.

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to higher EC prices. Therefore, imported corn was even less competitive with other feedgrains, and feed compounders began to scale down incorporation levels to minimal requirements. During 1978/79, U.K. corn imports for feeding purposes could fall below 1 million tons, compared with 2.5 million in 1976/77 and 1.7 million last season. Given the current situation in the compound feed industry, this appears to be rock bottom for the moment. U.K. imports of wheat, barley, and oats will likely remain at minimal levels.

Despite the country's reduced feedgrain imports, barley will again be in surplus this year. Subsidized exports of about 700,000 tons will be necessary to relieve price pressure on the domestic market and prevent a substantial buildup in stocks, of which a major portion could easily wind up in intervention stores.

The level of U.K. wheat imports relates directly to the quality of the domestic crop. In 1976, nearly 2.5 million tons from the drought-reduced but exceptionally high-protein crop were used for human and industrial purposes. During 1977/78, this figure dropped to 2 million tons as a result of reduced milling quality, owing to sprout damage. The gap was filled by an additional

500,000 tons of imported milling quality wheats, with roughly 60 percent coming from North America and the remainder from France. Assuming that the 1978 wheat will be more normal in terms of quality, more home-grown wheat will be used by domestic mills at the expense of imports.

Total U.K. wheat imports in 1978/79, including small quantities of feed wheat, are estimated at 3.3 million tons, down nearly 400,000 tons from those of 1977/78. Technological improvements in the milling industry allow a larger usage of EC-type "soft" wheats in the domestic grist each year. Should this year's harvest turn out above average supplies of milling quality wheat, it is quite possible that 1978/79 imports could be cut back to 3 million tons or less.

The overall grains balance for the United Kingdom has shifted fundamentally in recent years, primarily because of the EC Common Agricultural Policy price levels. In combination with substantial increases in yield potential, U.K. wheat and barley producers on average this year will harvest twice the tonnage per hectare and enjoy a gross per-hectare return four times that of their North American counterparts. Incentives to increase inputs and to sow expanded areas to higher

yielding feed quality wheats and barley appear unaffected by the absence of a similar rise in demand.

With large harvests expected elsewhere in the nine-member EC, surplus U.K. barley will have to find

a home outside the EC. Aided by export restitutions and the advantage of geographic location, it is expected that much of this barley will move into Eastern Europe, and, perhaps, the Soviet Union. □

Brazil's 1978 Coffee Crop Seen Unaffected by August Cold

Any damage that may have occurred to Brazil's coffee trees from the cold front that moved through Paraná and São Paulo on August 13-15 will not materially affect the 1978 coffee crop of around 20 million bags (60 kg each), which is already largely harvested.

However, it is still too early to assess accurately the effect on tree vegetation and on potential yields from Brazil's 1979 harvest, which begins around April 1979.

Based on weather reports and trade and industry observations, it is evident that the freeze was not nearly as damaging or intense as the frost that struck in 1975, killing or damaging more than half of Brazil's total coffee trees.

According to early reports, the recent cold wave possibly affected about 200 million trees in Paraná—a

sizable portion of Paraná's 700 million trees but only 6 percent of Brazil's total 3.1 billion coffee trees.

While initial flowering of coffee trees in Brazil does not occur usually until September, the excellent vegetation observed on trees in major coffee areas in Brazil just prior to the mid-August cold front suggested that recovery from the 1975 frost was about on target and that the 1979 crop could well reach pre-freeze crop levels of 25 million bags.

As of June 30, green coffee stocks in Brazil were reported at approximately 10 million bags. With the 1978 crop estimated by USDA at 20 million bags, Brazil should have adequate supplies to meet foreign demand during its July-June 1978/79 marketing year after allowing for domestic consumption requirements of 7-8 million bags. □